CLEVELAND PUBLIC LIBRARY
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# ANNUAL REPORT
## OF
# SAFEWAY STORES
## INCORPORATED

YEAR ENDED
DECEMBER 31st
1·9·3·4

BOARDS
q658.7414
Sa17r
MRB
CORP. FILE

SAFEWAY STORES
INCORPORATED
Geographical Distribution of Stores
130°
120°
110°
100°
90°
50°
45°
40°
35°
30°
25°
20°
British Columbia
56 stores
Alberta
35 stores
Saskatchewan
35 stores
Canada
179 stores
Manitoba
49 stores
Ontario
4 stores
Washington
207 stores
Oregon
148 stores
Montana
51 stores
Idaho
42 stores
Wyoming
26 stores
Nevada
10 stores
California
1,274 stores
Utah
46 stores
Colorado
209 stores
Nebraska
88 stores
Iowa
8 stores
Kansas
60 stores
Missouri
64 stores
Arizona
68 stores
New Mexico
24 stores
Oklahoma
70 stores
Arkansas
28 stores
Texas
132 stores
Total number of stores as of December 31, 1934
3,201 stores
Maryland
90 stores
Washington, D. C.
267 stores
Virginia
110 stores

# Annual Report of President to Stockholders

The report of the operations of your company and its subsidiaries for the year 1934, including Consolidated Balance Sheet, Profit and Loss Account and Surplus Accounts, is submitted herewith.

### Sales and Profits

Sales amounted to $242,966,383.20, an increase of $22,809,541.52, or 10.36%, as compared with 1933.

Net income for the year 1934 after income tax and adequate depreciation but before preferred dividends, amount to $3,866,826.76, as compared with $4,289,635.43 in 1933. Preferred dividends amounting to $982,274.18 were paid during the year, from which it will be seen that dividend requirements on the average outstanding preferred stock during the year were earned 3.93 times. After the payment of preferred dividends, the earnings of the company applicable to common stock were $2,884,552.58, or at the rate of $3.61 per share on 798,940 shares, the average number of common shares outstanding during the year.

The codes under which our industry operates were only effective for about six months of 1933, while they were in effect for all of 1934. Compensation paid employees amounted to $2,391,579.09 more in 1934 than in 1933.

The Consolidated Profit and Loss Account for the year 1933 included an income item of $282,452.43 for adjustment of net current assets of Canadian subsidiaries to exchange value of United States dollars as at December 31, 1933. No such adjustment appears for 1934 because Canadian exchange was slightly in excess of par at both the beginning and close of that year.

### Reserves

In 1932 and 1933 a reserve of $250,000.00 was created out of the earnings to provide for anticipated losses on balances in closed banks. As at December 31, 1934, the balances in closed banks amounted to $294,076.31. It is believed by your officers that the reserve now amounting to $237,744.36 will prove to be adequate to cover ultimate losses on realization.

The reserve for inventory adjustment in the amount of $350,000.00 established in 1931 was not utilized.

### Store Operations

During the year a total of 228 stores were closed and 9 stores in the Territory of Hawaii were sold. In these stores were located 177 markets which, of necessity, were also closed or sold. The expense of closing all stores vacated in 1934 was charged to current earnings, as well as amounts expended for rent and for settlement of leasehold liabilities thereon. All fixtures transferred from closed stores were carefully appraised and only the current value of usable or salable fixtures was carried forward. Leasehold

improvements on closed stores were charged off against current earnings, while improvements on continuing stores are being charged off against current earnings upon an amortized basis.

During the year 1934, 161 stores and 225 markets have been added to existing outlets. Six warehouses were also added during the year, and a warehouse in the Territory of Hawaii was sold. In making or renewing leases, we are endeavoring to secure terms which do not impose any speculative liability on your company. However, we are making a diligent effort to protect the interests of the landlords, believing that in order for the relationship to be continuing it must be profitable to both landlord and tenant on the basis of current conditions and values.

The average number of stores and markets in operation during the past nine years, as well as the bakeries, warehouses and creameries in operation at the close of each year, are shown below:

| Years | Sales | Grocery Stores | Meat Markets Located in Grocery Stores | Warehouses | Bakeries | Creameries |
|---|---|---|---|---|---|---|
| 1926 | $ 50,536,514 | 673 | 120 | 4 | 3 | .... |
| 1927 | 69,573,685 | 840 | 177 | 6 | 3 | .... |
| 1928 | 103,303,598 | 1,191 | 377 | 15 | 8 | .... |
| 1929 | 213,496,254 | 2,340 | 1,110 | 44 | 15 | 2 |
| 1930 | 219,284,707 | 2,675 | 1,489 | 44 | 17 | 2 |
| 1931 | 246,783,998 | 3,264 | 1,854 | 62 | 21 | 4 |
| 1932 | 229,173,468 | 3,411 | 2,066 | 66 | 21 | 4 |
| 1933 | 220,156,842 | 3,306 | 2,051 | 66 | 21 | 4 |
| 1934 | 242,966,383 | 3,228 | 2,085 | 71 | 21 | 4 |

At December 31, 1934, 3,201 stores in which were located 2,121 markets were in operation. In December, 1934, the company entered into a contract to acquire 54 stores, 42 markets and 1 warehouse, all of which were in operation in the State of Oklahoma.

## Financial Position

The total net worth of the company and its subsidiaries as at December 31, 1934, according to the attached Consolidated Balance Sheet was $45,095,479.37. Net current assets amounted to $23,864,733.56, and the ratio of current assets to current liabilities at the end of the year 1934 was 4.65 to 1. The rising level of food prices accounts for most of the increase in inventories and the reduction in cash on hand at the end of 1934 as compared with the preceding year.

In accordance with our regular custom, we indicate below the capital and surplus of the company, the book value of the preferred and common stocks and the earnings and dividends paid in prior years. The number of shares outstanding at the end of each year is used in determining book values and the average number of shares outstanding during the year in computing earnings. Effect is also given in prior years to the five for one split-up made in October, 1928.

| | Capital and Surplus | Net Assets per share of Preferred Stock | Book Value per share of Common Stock | Dividends paid per share on Common Stock | Net Earnings per share on Common Stock |
|---|---|---|---|---|---|
| 1926 | $ 4,346,154 | $148 | $6.20 | ..... | $4.89 |
| 1927 | 8,094,842 | 190 | 14.80 | $1.90 | 5.80 |
| 1928 | 26,664,305 | 307 | 30.45 | 2.30 | 8.12 |
| 1929 | 37,843,911 | 360 | 42.44 | 3.00 | 9.02 |
| 1930 | 36,780,959 | 355 | 41.55 | 5.00 | 4.82 |
| 1931 | 44,964,345 | 283 | 36.34 | 5.00 | 6.34 |
| 1932 | 44,485,616 | 285 | 36.12 | 4.50 | 4.22 |
| 1933 | 45,061,281 | 297 | 37.43 | 3.00 | 4.11 |
| 1934 | 45,095,479 | 306 | 37.99 | 3.00 | 3.61 |

The company's outstanding securities, both common and preferred, are now temporarily registered with the Securities and Exchange Commission. It is the intention

to proceed with the filing of an application for permanent registration of these securities, and the forms provided by the Securities and Exchange Commission will be prepared and filed in due course. These forms will contain more detailed information than it is considered feasible to give in this report.

### Personnel

The Employees' Association which was organized under the sponsorship of the company in January, 1933, has continued to receive the enthusiastic support of the company's personnel. As stated in last year's report, the Association was formed for the purpose of encouraging life and sick benefit insurance, promoting mutual welfare work, making temporary loans to the unfortunate and distressed, promoting social and athletic activities, and to insure and improve the health and happiness of employees. The company agreed to match the employees' contributions to the Association, up to a limit stipulated by the company, dollar for dollar, which resulted in expenditures for this purpose at the rate of approximately $200,000.00 in 1934. The Association is now fully organized in all divisions and districts in the United States and Canada, with 16,800 members. The total life insurance in force aggregates approximately $39,000,000.00.

Your company, from its inception, has employed the merit system in measuring promotion and remuneration of its store and sales personnel. Each employee in a managerial position is paid on a basis of salary plus a share of the earnings of his unit, district or division. The earnings of these employees, as a class, are well above the average and at the same time the basis of remuneration makes each one mindful and watchful of the general costs of his operations. The general spirit of the personnel of your company is good.

### General Comment

The rising tide of taxation has given your officers, in common with all business men, considerable concern. In especial, discriminatory tax measures have engaged their attention. We believe that we are taking effective steps to enlighten legislators and leaders of the public thought as to the economic and social justification of our method of distribution and we are hopeful that these efforts, as well as those of others in the industry, will prevent the imposition of seriously damaging taxes of this nature.

Following the last annual meeting, Mr. M. B. Skaggs was elected Chairman of the Board and I was elected President of your company as his successor. Mr. Skaggs guided the company from its inception, including the very arduous recent years, with marked success, and will continue to be active in the affairs of the company indefinitely.

I desire to take this opportunity to publicly express my appreciation to all the personnel for their cooperation and efforts.

L. A. WARREN,
President.

## SAFEWAY STORES, INCORPORATED (A Maryland Corporation), AND SUBSIDIARIES

### Consolidated Balance Sheet As At December 31, 1934

#### ASSETS

| | | |
|---|---|---|
| **Current Assets:** | | |
| Cash in Banks and on Hand | | $ 4,429,263.80 |
| Accounts Receivable—Trade, less Reserve $147,148.34 | | 1,601,780.56 |
| Government Accounts Receivable and State, County and Municipal Warrants | | 1,366,611.00 |
| Sundry Accounts Receivable | | 464,591.76 |
| Merchandise Inventories—at lower of cost or market | | 22,532,442.89 |
| Total Current Assets | | 30,394,690.01 |
| **Prepaid Expenses:** | | |
| Rents, Taxes and Licenses | $ 228,606.20 | |
| Insurance | 175,403.12 | |
| Miscellaneous Supplies, etc. | 95,270.94 | 499,280.26 |
| Balances in Closed Banks, less reserve $237,744.36 | | 56,331.95 |
| **Investments and Advances:** | | |
| Securities of Affiliate—at Cost | 110,000.00 | |
| Other Security Investments—at Cost | 251,333.90 | |
| Indebtedness of Affiliate | 50,000.00 | |
| Other Investments | 196,144.94 | 607,478.84 |
| **Fixed Assets—at Cost:** | | |
| Land | 2,769,241.37 | |
| Buildings | 8,821,096.40 | |
| Store and Warehouse Fixtures and Equipment and Leasehold Improvements | 20,046,596.92 | |
| Automotive Equipment | 1,845,904.85 | |
| | 33,482,839.54 | |
| Less Reserve for Depreciation | 13,065,184.78 | 20,417,654.76 |
| Total | | $ 51,975,435.82 |

#### LIABILITIES

| | | |
|---|---|---|
| **Current Liabilities:** | | |
| Accounts Payable | | $ 3,448,059.16 |
| State Sales Taxes | | 365,017.60 |
| Accrued Expenses | | 1,133,570.15 |
| Dividends Payable | | 843,005.75 |
| Reserve for Federal and Canadian Income Tax | | 740,303.79 |
| Total Current Liabilities | | 6,529,956.45 |
| Reserve for Inventory Adjustment | | 350,000.00 |
| **Capital and Surplus:** | | |
| Preferred, 7% Cumulative Stock, Par Value $100.00 per share, redeemable at $110.00: Authorized 101,033 shares Outstanding 90,648 shares | $ 9,064,800.00 | |
| Preferred, 6% Cumulative Stock, Par Value $100.00 per share, redeemable at $110.00: Authorized 57,634 shares Outstanding 56,784 shares | 5,678,400.00 | |
| Preferred Stock, Unclassified as to series, Par Value $100.00 per share: Authorized and Unissued 40,00 shares | | |
| Common Stock without Par Value: Authorized 1,500,000 shares—Note (1) Outstanding 798,984 shares—Note (2) | 9,795,648.13 | |
| Paid-in Surplus | 11,622,245.03 | |
| Earned Surplus | 8,937,277.13 | |
| | 45,098,370.29 | |
| Less—1 Share, 7% Preferred and 54 Shares of Common Stock in Treasury—at cost | 2,890.92 | 45,095,479.37 |
| Contingent Liabilities Reported—None, except lawsuits incidental to the Companies' operations, reasonably covered by insurance | | |
| Total | | $ 51,975,435.82 |

Note (1) 2,000 shares reserved for issue to Bankers for services rendered, to be issued only if earnings applicable to each share of Common Stock in 1935 or 1936 amount to $7.00.

Note (2) After deducting 21,000 shares held in Treasury, of which 12,675 shares are reserved for issue to Executives under options expiring June 30, 1937 at $50.00 per share. These options provide that the shares can not be issued unless the annual earnings applicable to each share of Common Stock in 1935 and/or 1936 amount to $6.50 or more.

Note (3) The Assets and Liabilities of the Canadian Subsidiaries have been included at par of exchange.

Note (4) Federal and Canadian Income Tax Returns for the years 1929, 1931, 1932 and 1933 are subject to final review. The validity of a gross revenue tax measure involving approximately $40,000.00 is now pending in the Supreme Court of the State of New Mexico.

## SAFEWAY STORES, INCORPORATED (A Maryland Corporation), AND SUBSIDIARIES

### Consolidated Profit and Loss Account for the Year Ended December 31, 1934

| | | |
|---|---|---|
| Sales (Net) | | $242,966,383.20 |
| Cost of Sales | | 189,920,910.41 |
| **Gross Profit** | | 53,045,472.79 |
| Operating and Administration Expenses | $ 45,519,243.43 | |
| Provision for Depreciation | 2,830,071.01 | 48,349,314.44 |
| **Net Operating Profit** | | 4,696,158.35 |
| Other Income | | 95,823.71 |
| | | 4,791,982.06 |
| Income Deductions | | 238,670.11 |
| | | 4,553,311.95 |
| Provision for Federal and Canadian Income Tax | | 686,485.19 |
| **Net Income** | | $ 3,866,826.76 |

### Earned Surplus Account for the Year Ended December 31, 1934

| | | |
|---|---|---|
| Balance as at December 31, 1933 | | $ 8,449,269.74 |
| Net Income for Year Ended December 31, 1934 | | 3,866,826.76 |
| | | 12,316,096.50 |
| **Deduct:** | | |
| Dividends on Preferred Stock | $ 982,274.18 | |
| Dividends on Common Stock | 2,396,545.19 | 3,378,819.37 |
| Balance as at December 31, 1934 | | $ 8,937,277.13 |

### Paid-in Surplus Account for the Year Ended December 31, 1934

| | |
|---|---|
| Balance as at December 31, 1933 | $ 11,655,963.19 |
| Deduct Premium on Preferred Stock purchased for Retirement | 33,718.16 |
| Balance as at December 31, 1934 | $ 11,622,245.03 |

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To the Board of Directors of
Safeway Stores, Incorporated.

We have made an examination of the Consolidated Balance Sheet of Safeway Stores, Incorporated (a Maryland Corporation) and its subsidiary companies as at December 31, 1934, and of the Consolidated Profit and Loss and Surplus Accounts for the year 1934. In connection therewith, we examined or tested accounting records of the Companies and other supporting evidence and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Consolidated Balance Sheet and related Consolidated Profit and Loss and Surplus Accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, their consolidated position at December 31, 1934, and the results of their operations for the year.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California.

March 8, 1935.

# Safeway Stores, Incorporated

(A Maryland Corporation)

## Executive Officers

| | |
|---|---|
| M. B. SKAGGS | Chairman of the Board |
| L. A. WARREN | President |
| L. S. SKAGGS | Vice-President |
| EDWARD G. YONKER | Vice-President |
| W. R. GRISWOLD | Secretary and Treasurer |
| LAWRENCE GILES | Controller |

## Directors

M. B. SKAGGS — L. A. WARREN

EDWARD G. YONKER — L. S. SKAGGS

W. R. GRISWOLD

## Executive Offices

5th and Virginia Street . . . . . Reno, Nevada

## Transfer Agent

The Chase National Bank of the City of New York . New York, N. Y.

## Registrar

City Bank Farmers Trust Company . . . New York, N. Y.

## Auditors

Peat, Marwick, Mitchell & Co.